UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/CN.1/17
TD/B/CN.1/IRON ORE/10
5 November 1993

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Standing Committee on Commodities
Second session
Geneva, 31 January 1994
Item 9 of the provisional agenda

REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE ON ITS SECOND SESSION

held at the Palais des Nations, Geneva
from 25 to 27 October 1993

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INTRODUCTION

1. The second session of the Intergcvernmental Group of Experts on Iron Ore was held at the Palais the Nations, Geneva, from 25 to 27 October 1993.

2. In the course of the session, the Expert Group held two plenary meetings. At its 3rd (opening) meeting on 25 October, it decided to pursue its discussions on agenda items 3, 4, 5, 6 and 7 in informal meetings.

3. In his introductory statement, the Deputy to the Secretary-General of UNCTAD and Director of the Commodities Division, in welcoming government representatives and industry experts, observed that the Expert Group should be proud to be considered by the international iron ore community as one of the most authoritative sources of information and market analysis on iron ore issues, which was the result of a collective effort. Over its seven years of existence, the Group has been fulfilling its unique role of strengthening producer-consumer co-operation, improving market transparency, monitoring market developments, and facilitating a fruitful exchange of views on issues of interest to the iron ore industry worldwide, being the only forum exclusively devoted to iron ore.

4. The slowdown of the world economy had caused a 4 per cent decline in global demand for iron ore in 1992, while world trade had dropped even more, i.e. by 8 per cent. The downward pressure on prices had started in that year (a 5 to 7 per cent fall) and had been further accentuated in 1993 (when they had dropped by 10 to 12 per cent). The big losers had been the iron ore exporters, whose export earnings had fallen by US$ 700 million in 1992. Nevertheless, programmes for environmental management and technological advances had been pursued.

5. The fierce competition prevailing in the market had also led to greater co-operation. Privatizations and the growing number of joint-ventures involving domestic and foreign capital were transforming the corporate structure of the world iron ore mining industry. Important shifts were also resulting from the growing participation of trading companies in iron ore mining ventures. Furthermore, the opening-up of the mineral sector in some major producing countries had also meant a step towards a globalized iron ore industry.

Chapter I

SUMMARY OF PROCEEDINGS ON THE SUBSTANTIVE AGENDA ITEMS

A. REVIEW OF IRON ORE STATISTICS

(Agenda item 3)

1. Review of the document "Iron ore statistics 1983-1992" (TD/B/CN.1/IRON ORE/7)

6. The UNCTAD secretariat presented this document containing 27 tables with detailed updated statistics, based on the replies received to the UNCTAD questionnaire on iron ore. As of 15 July 1993, 28 countries and the Commission of the European Communities on behalf of its 12 member countries had responded to the questionnaire. The secretariat noted with regret that this had been a reduced number of replies: nine countries less than in 1992, among them some major producers. To fill that gap, the secretariat had consulted national statistics and had made some estimates in order to complete the world tables.

7. Recalling that one of the major aims of the Group was to compile comparable statistics, the secretariat drew the experts' attention to the importance of filling in the questionnaires using the commonly agreed definitions, particularly in the case of iron ore production figures.

8. The secretariat drew attention to the fact that some tables providing more disaggregate data by product types had limited coverage because they had been prepared exclusively with the questionnaire data. The inclusion of a page with definitions, as well as the footnotes which followed each table, represented a significant step to facilitate the reading and understanding of the statistics.

9. The secretariat also stressed the importance of Explanatory Note no. 2. In the 1993 report, statistics for Germany for 1991 and 1992 were related to the enlarged territory. As a result, the interpretation of 1991 and 1992 figures should take into account that totals for developed market-economy countries, as well as for the European Economic Community, were comparatively higher, whereas the opposite had happened in the case of Eastern Europe.

10. Revisions and up-to-date statistics were provided by participants and the revised data were distributed informally in the course of the session.

2. Year-to-date statistics and estimates for 1992 and 1993

11. The secretariat distributed at the beginning of the session the informal document entitled "Year-to-date statistics - Latest statistics available for October 1993", presenting information on iron ore production, consumption and trade for the first three quarters of 1993 as well as forecasts for 1993-1994, which were provided in reply to the request by the secretariat addressed at the beginning of September 1993 to the major producing and consuming countries. The secretariat stated that the number of replies had been very encouraging (16 countries and the Commonwealth of Independent States (CIS) had answered it) and expressed its thanks to those countries for their extended co-operation in providing very timely statistics.

12. The compilation of all available data for 1993 was distributed to each delegation. It included a summary table, comparing 1993 with 1992 data for production, consumption and trade for the key countries involved in the world market for iron ore. That information was useful and complemented the Group's assessment of the current market situation.

13. In addition, a mini-questionnaire was distributed to participants in order to collect the latest statistics available and/or estimates of key data for 1992 and 1993 for those countries that had not yet provided them.The compilation of the up-to-date and revised data provided during the session was made available at the end of the session to participants as an informal document called "Latest statistics available to the UNCTAD secretariat, supplemented by data provided by delegates during the session".

3. System of national statistical correspondents

14. The secretariat reported that it had focal points for the provision of iron ore statistics in 87 countries. The only new addition in 1993 had been China. It stressed the importance of statistical correspondents to speed up the collection of the annual and the year-to-date iron ore statistics.

B. REVIEW OF THE CURRENT SITUATION AND OUTLOOK FOR IRON ORE

(Agenda item 4)

Review of the document "Review of the current situation and outlook for iron ore - 1993" TD/B/CN.1/IRON ORE/8

15. The UNCTAD secretariat presented the document describing market developments in 1992 and the first half of 1993 (TD/B/CN.1/IRON ORE/8). It affirmed that global iron ore consumption had decreased to 910 million tons (mt) in 1992, owing to the sharp drop of consumption in Japan and the EEC, as well as in the former USSR and in other East European countries. In China, however, iron ore consumption had reached a new record in that year, and the country had become the largest iron ore consuming country. In developing countries as a whole, iron ore consumption had continued to grow.

16. In 1992, the combination of recession and structural changes had hit the steel market, which had experienced growing trade tensions and low prices. The 2 per cent decline of world crude steel production had not been so sharp, but had caused shifts in competitive positions of major actors in the international scene. The most noticeable event of the steel market in that year had been the contrast between the 14 per cent growth of steel consumption in China and the 10 per cent drop in steel demand in Japan. With the exception of the United States, steel output had increased only in developing countries, particularly in India, the Republic of Korea and Brazil. In contrast, total steel production in the CIS and Eastern Europe had dropped by more than 35 per cent between 1988 and 1992. This had been mainly due to the problem of distribution of coal and scrap inside the CIS republics. In the EEC, restructuring and mergers were changing the structure of the steel industry and only three of its member States had been among the top ten steel producers in 1992.

17. World demand for ferrous metallics had also declined in 1992. World pig iron production had fallen below 500 mt. The market downturn had made it clear that the price/quality relationship was determinant to pig iron/scrap/DRI competition. The structure of the world steel industry was changing because mini-mills were gradually penetrating markets for high quality steel products which traditionally had belonged to integrated steelmakers. This was increasing the competition of scrap vis-à-vis pig iron, and of DRI vis-à-vis scrap.

18. Turning to the supply side, the secretariat recalled that world production of iron ore had fallen by 5 per cent to 903 mt in 1992. Among the major producers, China had been the only one to increase output and had become the top producing country, although its mined ores had to be upgraded. All export-

oriented producers had suffered from the gloomy international demand and the strongest decline in output had occurred in the former USSR.

19. As regards regional developments, the secretariat pointed out that South Africa had exported 15 mt of iron ore in 1992, while developing Africa had continued to lose market share. Regional output in Asia was concentrated in China and in India, which had opened up its mining industry to the private sector. DRI capacity was increasing in the Middle East, thanks to the reserves of natural gas. Iron ore output had fallen by 20 per cent in Eastern Europe and the former USSR was no longer the world's largest producer. Capacity cuts were continuing in Western Europe, with the exception of Sweden. The production of iron ore had fallen in Latin America in 1992, but the major producing countries were investing in capacity expansions. In North America output had fallen by just 3 per cent and its mines had operated at 80 per cent of capacity. In Australia, production had decreased to 115 mt but plans aimed at reaching a 140 mt capacity by 1995 were being executed.

20. About 26 iron ore projects were under implementation. Capacity increases were under way in Australia, Brazil, China, Chile, India, Islamic Republic of Iran, Mauritania, Sweden and Venezuela, while reductions were taking place in Canada, CIS, France and Liberia. The driving force behind most investments was the potential of the iron ore market in China and developing Asian countries. However, the impact of the declining demand in traditional markets such as Japan, the EEC and Eastern Europe should not be underestimated.

21. In 1992, the upward trend of iron ore prices had been reversed. As demand had already been declining, a generalized drop ranging from 5 to 7 per cent had been agreed upon in Japan and then followed in Europe. In 1993 that downward pressure had been accentuated, further lowering iron ore f.o.b. prices by 10 to 12 per cent on average. The cumulative decline during 1992/93 had ranged between 16 and 20 per cent. Regarding technological issues, the secretariat stressed that, as some of the best iron ore deposits were being gradually depleted, the challenge to the iron ore industry was to focus R&D on technical advances to enable inferior ores to become technically acceptable for the production of high-quality iron.

22. Mr. Dong Zhi Xiong, Vice-president of China Metallurgical Import & Export Corporation (Beijing, China), made a presentation on "The current and future iron ore requirements in China". He stated that crude steel production in that country had increased from 150,000 tons in 1949 to 31.78 mt in 1978 and 80.93 mt in 1992. Chinese output of pig iron had expanded from 34.79 mt in 1978 to 75.98 mt in 1992, while iron ore production had grown from 117.79 mt to 209.76 mt over the same period. However, the domestic iron and steel industry was facing three main problems: owing to low-grade reserves, Chinese iron ore production could not keep pace with the demand from increasing pig iron output; the speed of construction of iron ore mines had slowed down because of technical problems; and the crowded transportation system would prevent blast furnaces from using domestically produced iron ore in the near future.

23. Turning to Chinese imports of iron ore, he pointed out that they had grown from 3.4 mt in 1981 to 25 mt in 1992. From the mid-1980s onwards an effort had been made to diversify suppliers, but Australia still accounted for 55 per cent of all iron ore imported by China. In order to ensure foreign supply, Chinese companies had invested in iron ore mines overseas (e.g. in Australia and Peru). Nevertheless, the inadequate transport infrastructure, both in terms of ports and railways, was a strong constraint on imports. Efforts would be made to ensure that the transportation bottleneck would not hinder the rapid expansion of the Chinese iron and steel industry. He hoped that Chinese companies could reach agreements with foreign suppliers to strengthen co-operation in terms of Chinese investments in mines located abroad, foreign investments in the Chinese

transportation infrastructure, and the establishment of joint fleets for ocean transportation.

24. Mr. Dieter Siuka, General Director, Corex process of Voest Alpine Industrieanalagenbau GmbH (Linz, Austria), made a presentation on "Dimensions of Corex with regard to the environment and energy utilization". He stated that Corex had been developed as an alternative to the conventional coke oven-blast furnace route. Its main targets were: use of non-coking coal; elimination of agglomeration plants through the input of lump ore; minimization of environmental loads; high operational flexibility with respect to production capacity, raw material changes and stopping times; and production of hot metal of at least blast furnace quality. Corex production costs were 20 to 25 per cent lower than those of the conventional method, while the specific investment costs were approximately 20 per cent lower than those of coke oven-blast furnace. Corex produced hot metal as well as export gas. The latter had potential for significant gas credit earnings, since it might be used in DRI production, in the chemical industry and in energy generation, which allowed the plant to produce energy in excess of its need and thus export it. From the environmental point of view, Corex did not have any equivalent to the emissions caused by the coke oven and therefore to a large extent avoided the causes of pollution in the production of hot metal.

25. Industry experts and government officials made statements about developments in their national markets and the activities of their companies. In particular, reports were made by the representatives of Australia, Canada, Chile, India, Japan, Sweden and the United States of America. These reports were followed by a lively exchange of views on the iron ore current market situation.

26. The Intergovernmental Group reviewed the short-term market outlook in the light of the secretariat's report (TD/B/CN.1/IRON ORE/8) and the latest available statistics for 1993. It was felt that in 1993 global demand was recovering, particularly in the second half of the year, except in Europe. World trade was gradually picking up.

27. Regarding 1994, in light of the gradual economic recovery forecast for the OECD area, the Group felt that steel would have a better market balance and that its prices would rise. In this context, global iron ore demand and trade should grow moderately. Iron ore supply was likely to react faster to market signals.

C. BIBLIOGRAPHY OF RELEVANT STUDIES ON IRON ORE

(Agenda item 5)

Review of the document "Annotated bibliography on iron ore - 1993" (TD/B/CN.1/IRON ORE/9)

28. The secretariat presented document TD/B/CN.1/IRON ORE/9 containing an extensive list of the latest publications on iron ore, based on responses to the questionnaire sent to the member States of UNCTAD and to all international organizations concerned. Attention was drawn to Part III of the document dealing with summaries on specific topics.

29. The Expert Group had as a guest speaker Mr. Winfried Deutzmann, who made a presentation on "The European Community's iron ore supply: yesterday, today and tomorrow". He recalled that the European Coal and Steel Community (ECSC) had been created in 1952 for a period of 50 years. In the 1960s it had financed projects aimed at increasing iron ore mine production within member countries, while keeping costs down and ensuring mine safety. However, this had not prevented the region's output from falling continuously, which had led European steel producers to look abroad for the sourcing of their raw material.

Consequently, the ECSC and the European Economic Community had started financing prospecting and mining projects in West Africa, the Americas and Europe (e.g. the Carajás project in Brazil). With the aim of diversifying the region's iron ore suppliers from the 1980s onwards, the European Community had discussed the financing of Miferso, Mifergui and Somifer projects (located in Guinea, Senegal and Gabon, respectively) but none of them had been implemented. In conclusion, he said that, as a consequence of the shrinking of the European steel industry, in future the European Commission's activities related to iron ore would be reduced. Iron ore would be treated as one raw material like all others, but without the financial privileges it had previously enjoyed under the auspices of the ECSC Treaty.

D. PREPARATIONS FOR THE THIRD SESSION OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE

(Agenda item 6)

30. At its 4th (closing) meeting, on 27 October 1993, the Group of Experts approved the draft provisional agenda for its third session, which had been circulated informally by the secretariat. (For the provisional agenda, see annex I below).

31. At the same meeting, the Group of Experts recommended that the third session of the Group should be held between 26 and 28 October 1994.

E. OTHER BUSINESS

(Agenda item 7)

32. The UNCTAD secretariat, acting upon a request made by the Group of Experts on 28 October 1992, prepared an informal document entitled "Considerations on a possible application by the Intergovernmental Group of Experts on Iron Ore to the Common Fund for Commodities" (UNCTAD/COM/14/Rev.1). The Group of Experts discussed this issue and decided to reconsider it at its third session under the agenda item on "Other business".

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

33. The second session of the Intergovernmental Group of Experts on Iron Ore was opened on 25 October 1993 by Mr. Carlos Fortín, Deputy to the Secretary-General of UNCTAD and Director of the Commodities Division.

B. Election of officers

(Agenda item 1)

34. At its 3rd (opening) meeting, on 25 October 1993, the Intergovernmental Group of Experts on Iron Ore elected Mr. Tom Keating (Australia), a representative of an iron-ore producing country, as Chairman and Mr. Jacques E. Astier (France), a representative of an iron-ore consuming country, as Vice-Chairman-cum-Rapporteur.

C. Adoption of the agenda

(Agenda item 2)

35. At the same meeting, the Group adopted the provisional agenda for its second session (TD/B/CN.1/IRON ORE/6) as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of iron ore statistics
4. Review of the current situation and outlook for iron ore
5. Bibliography of relevant studies on iron ore
6. Preparations for the third session of the Intergovernmental Group of Experts on Iron Ore
7. Other business
8. Adoption of the report to the Standing Committee on Commodities.

D. Adoption of the report to the Standing Committee on Commodities

(Agenda item 8)

36. At its 4th (closing) meeting, on 27 October 1993, the Group of Experts adopted the draft report on its second session (TD/B/CN.1/IRON ORE/L.2), with minor amendments, and authorized the Rapporteur to complete the final report as appropriate.

ANNEXES

Annex I

PROVISIONAL AGENDA FOR THE THIRD SESSION OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of iron ore statistics and of other institutions' activities and publications on iron ore

4. Review of the current situation and outlook for iron ore

5. Provisional agenda for the fourth session of the Intergovernmental Group of Experts on Iron Ore

6. Other business

7. Adoption of the report to the Standing Committee on Commodities.

Annex II

MEMBERSHIP AND ATTENDANCE */

1. The following States members of UNCTAD were represented at the session:

Algeria
Australia
Austria
Brazil
Canada
Chile
France
Germany
Greece
Hungary
India
Italy
Japan
Mexico
Netherlands
Norway
Panama
Philippines
Poland
Portugal
Republic of Korea
Russian Federation
Slovakia
Sweden
Switzerland
Thailand
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
United States of America
Venezuela

2. Economic Commission for Europe;
Economic Commission for Africa were represented at the session.

3. The following specialized agency was represented at the session:

International Monetary Fund.

4. The following intergovernmental organizations were represented at the session:

European Economic Community
Organization of African Unity.

5. The following non-governmental organization was represented at the session:

General Category:

International Bar Association

6. A representative of the Arab Iron and Steel Union, a non-governmental organization, attended the session at the special invitation of the UNCTAD secretariat.

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*/ For the list of participants, see TD/B/CN.1/IRON ORE/INF.2.